




Slide 1

Bond Issues: Managing Public Library Projects, Debt and Tax Rate

Indiana State Library
August 14, 2013



Serving Indiana Libraries as Bond Counsel for over 100 years



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Discussion Topics

- Roles and Description of Project Finance Team
- Project Planning and Considerations
- Bond Structures
- Legal Processes – Approval of the Bonds
- Sale of the Bonds and Post-Sale Activities

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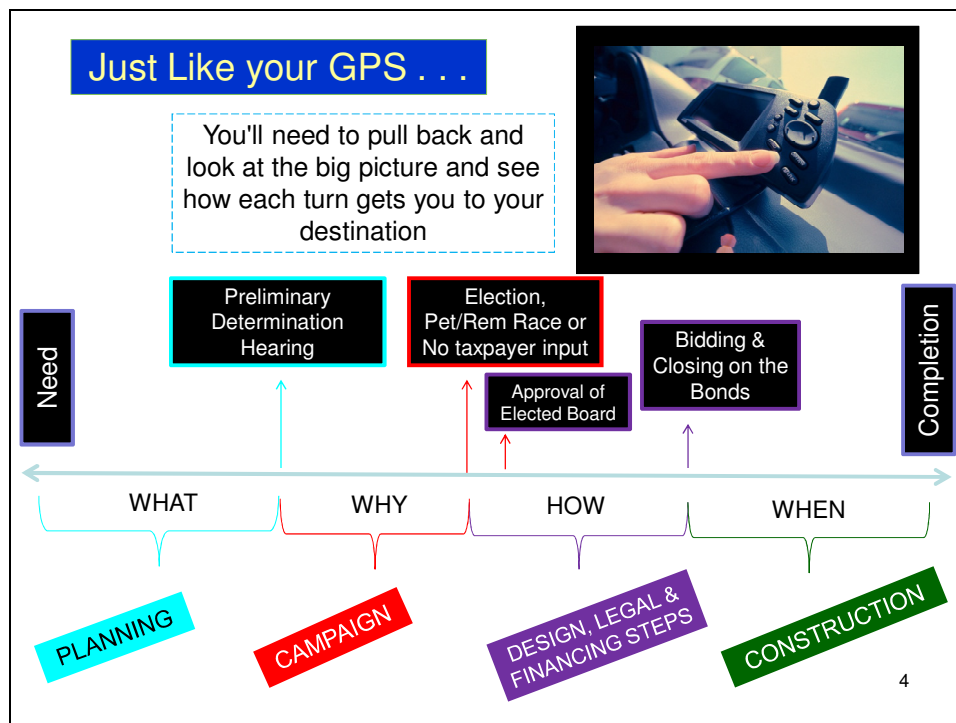
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Learning Outcomes

- Participants will be able to identify members of the Project Finance Team (i.e. Working Group) and their roles in the financing
- Participants will be able to define the types of financings available to Libraries
- Participants will be able to develop and discuss a list of considerations when bonds are structured
- Participants will be able to summarize the process to gain approval for bonds

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Roles and Description of Project Finance Team

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The Road to a Project . . .



and you are THE
DRIVER.


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IT CAN BE A LONG ROAD

You will need your **Dashboard** with all the Tools



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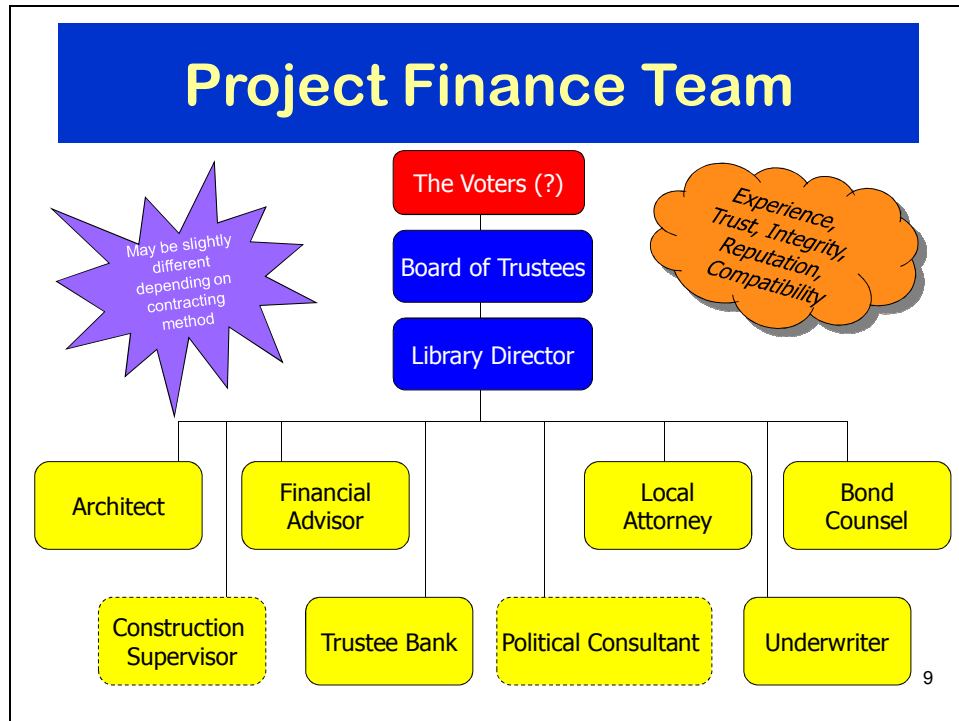
You'll need some Keys

Cast of Characters – AKA the "Professionals"

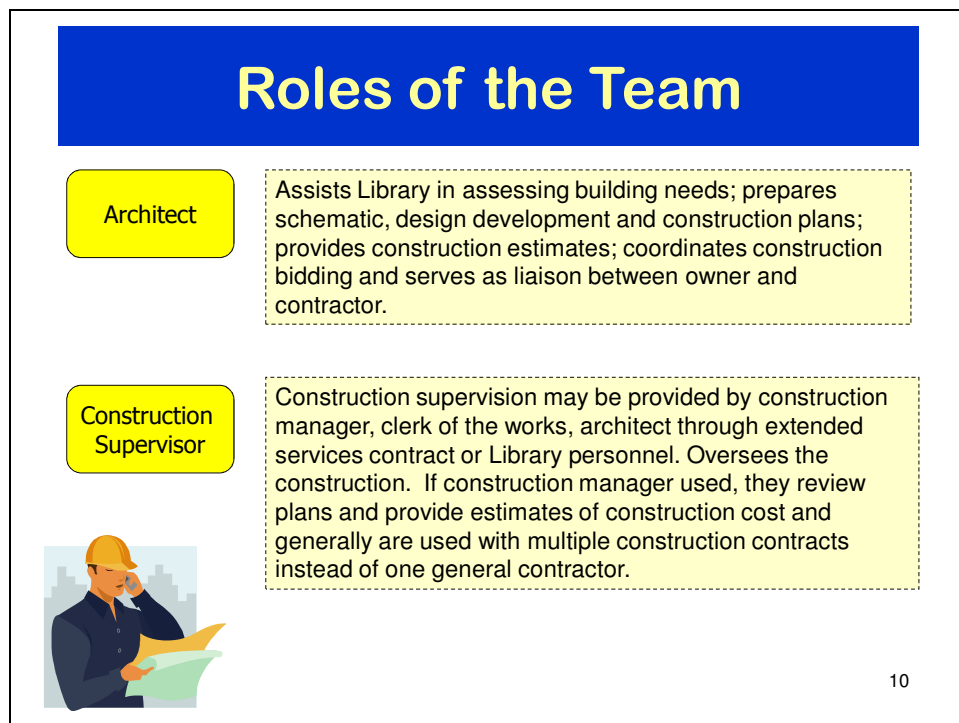
- These are services therefore public bidding not legally required
- Make sure experience matches the needs of your project
- Talk with references (and other Libraries who have used them)
- Communicate upfront expectations of fees and expenses (when they are to be paid & the amount to be paid if the project fails)

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Roles of the Team (Cont'd)

Financial Advisor	Structures financing; advises on bond size, interest rates, circuit breaker tax caps and term of repayment; assists with determining and presenting tax impact to Board and taxpayers; prepares official statement, assists in rating process and conducts sale.
Underwriter	Lowest bidder in a public bond sale or the investment banker hired to underwrite the bonds when a negotiated sale is used. Provides financial advisor and Library with information on both current market and estimated future interest rates. Recommends best timing for sale.
Trustee Bank	Bank used in a lease financing which holds bond proceeds in trust; invests proceeds; writes checks for expenditures when authorized; collects lease rental and pays bondholders.


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Roles of the Team (Cont'd)



Local Attorney	Regular Library attorney who oversees preparation of resolutions of Library board and building corporation; coordinates legal publications; arranges for appraisal proceedings, if needed; obtains title insurance and acts as general legal advisor to Library.
Bond Counsel	Advises on correct procedures to follow; prepares financing timetable; drafts major documents; advises (with other team members) on strategy for successful petition/remonstrance or referendum; shepherds closing on bonds; reviews all proceedings and delivers bond counsel opinion that lease/bonds are valid and interest on bonds is tax exempt.



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Project Planning and Considerations


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A Map of the Stops Along the Way

WHAT is the Need --
HOW DO YOU DECIDE WHAT IS
THE PROJECT?

Is the **NEED** tax
management?

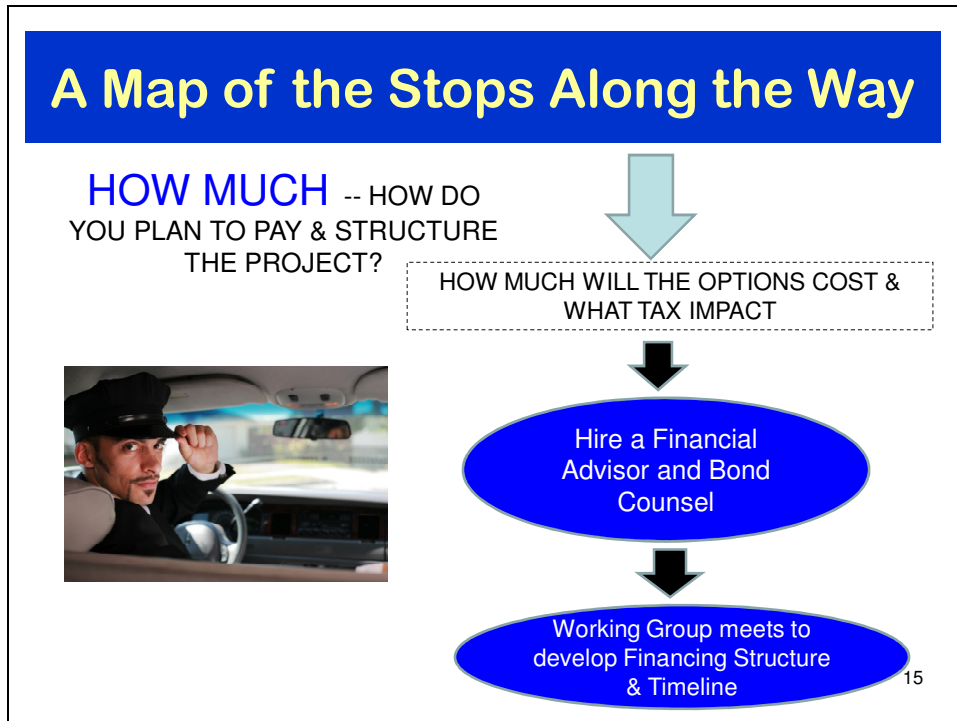


► **Facility Assessment**
Quality & Function of Facilities

Don't let your
rate drop!

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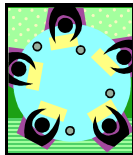
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Working Group Meeting

- **Typically attended by:** Director, Architect, Financial Advisor, Library Counsel and Bond Counsel.
- **Agenda:** Planning of project options (including structure, timing, processes, estimated costs) to present to the Library Board and public.



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Planning Questions

- What types of projects are being contemplated?
- Is the Library currently using Operating or Capital Projects funds for capital expenditures?
- How will the par amount be determined (a maximum amount or project driven)?
- Are there funds on hand that will be contributed toward the project?
- What is the existing debt structure of the Library?
- How will Circuit Breaker Tax Credits be impacted from the issuance of bonds?
- Who is the fiscal body? What is the political environment?

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Project Scope

- Renovation of existing facilities
- Addition to existing facilities
- New construction
- Land acquisition and development
- Roofing
- HVAC
- Carpeting
- Computers (hardware only)
- Technology infrastructure

Is the Library currently using Operating or Capital Projects funds for capital expenditures?

What is the useful life of the projects/improvements?

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IDENTIFY OPTIONS AND THE COST OF EACH

Always talk about --

TOTAL PROJECT
COSTS =

Hard Construction Costs +
Soft Construction Costs +
Costs of Issuing Bonds

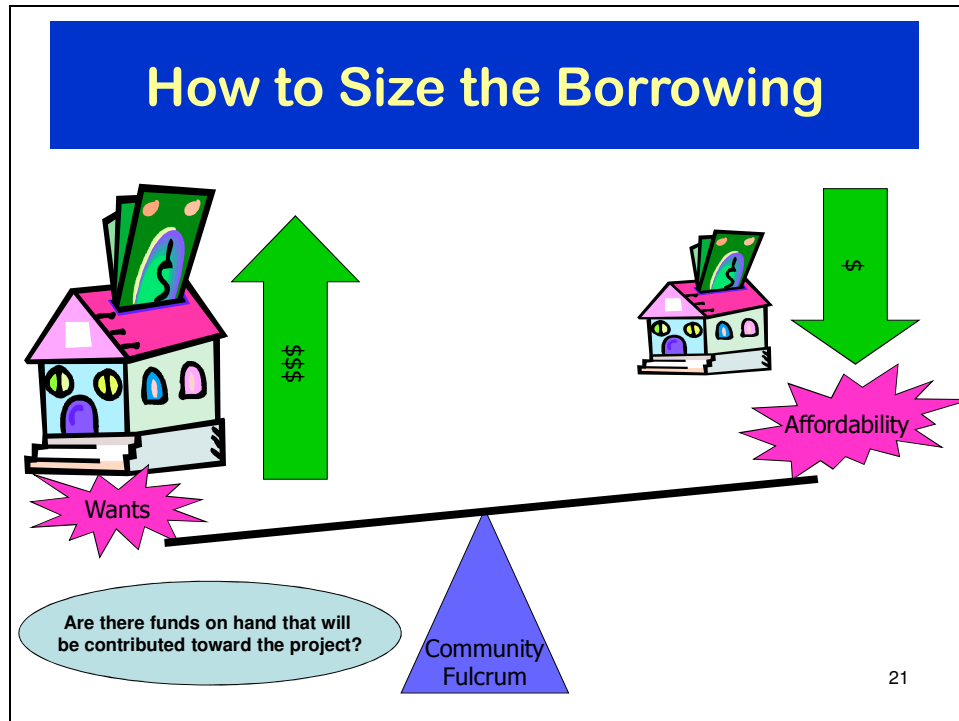
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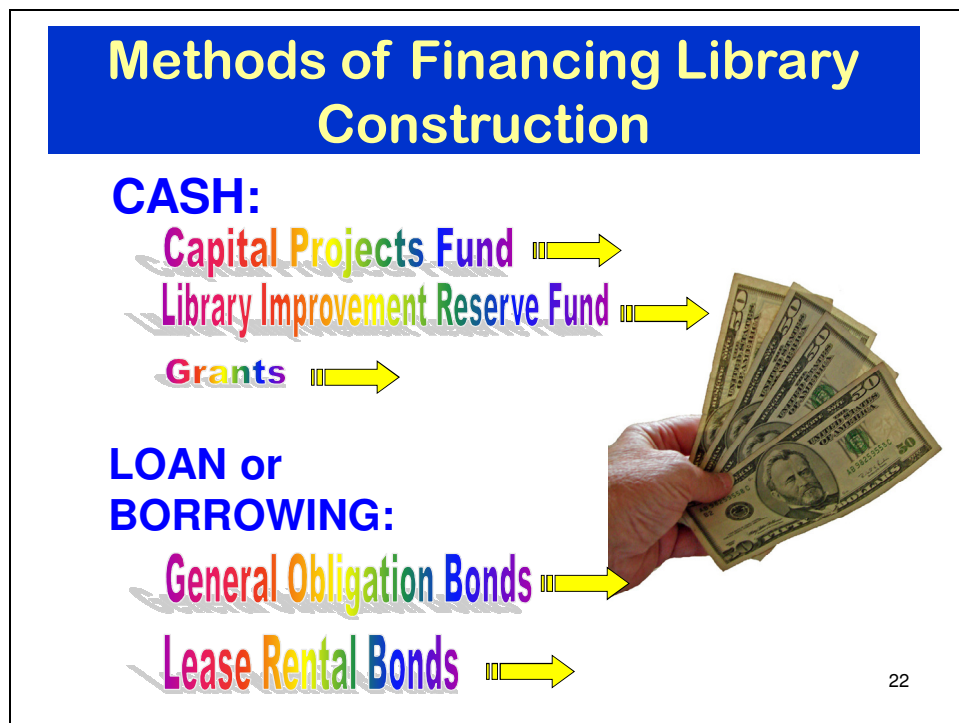
Hard Costs	Soft Costs (20%-30%)	
Hard Construction	Soft Construction	Costs of Issuance
Construction, i.e., "bricks & mortar"	Architect	Financial advisor
Site work	Construction manager	Library counsel
Utility relocation	Printing of plans	Bond counsel
Contingency	Builder's risk insurance	Title insurance
	General conditions	Trustee/Registrar/Paying Agent bank
	Equipment	Underwriter's discount
	Technology	Official statement
	Land	Interest during construction

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Debt Structuring

- Structure
 - Level : Same payments throughout repayment term, much in the same way your home mortgage is paid
 - Wraparound : Payments are increased as existing debt is repaid in an effort to maintain level payments for ALL outstanding debt
- Term
 - Maximum of 20 years
 - Should match the useful life of the projects/items that are being financed

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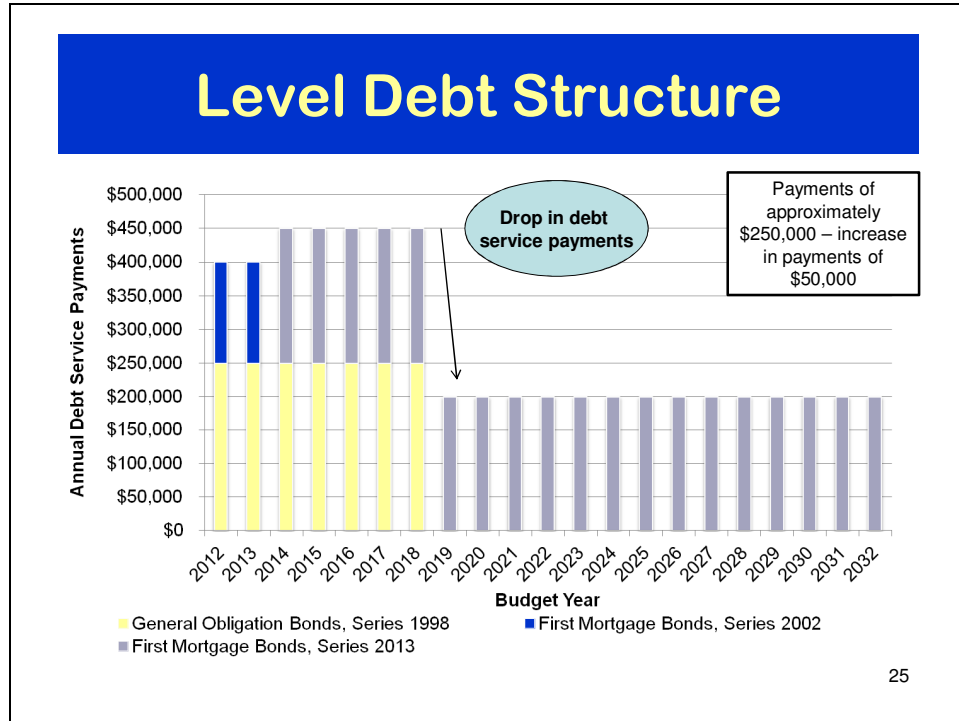
General Obligation Debt Limit

Net assessed valuation	\$566,700,000
Divided by 3	3
Times: 2% general obligation debt issue limit	<u>2%</u>
General obligation debt issue limit	3,778,000
Less: Outstanding general obligation debt	<u>(1,250,000)</u>
Estimated amount remaining for general obligation debt issuance	<u>\$2,528,000</u>

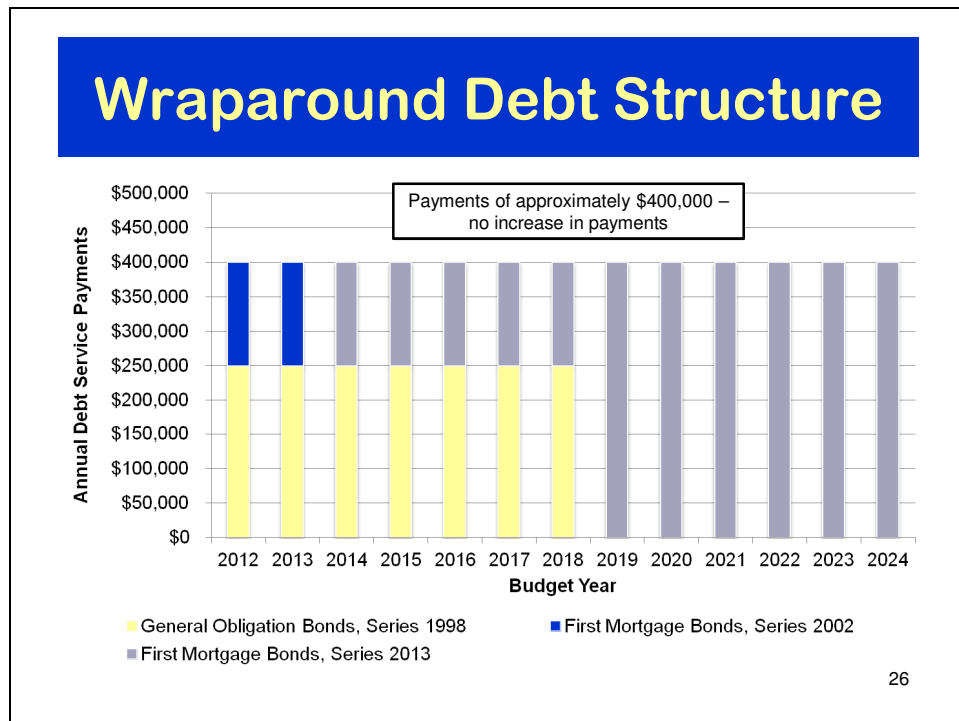
If the total project cost exceeds the debt limit, the bonds must be issued as Lease Rental Bonds.

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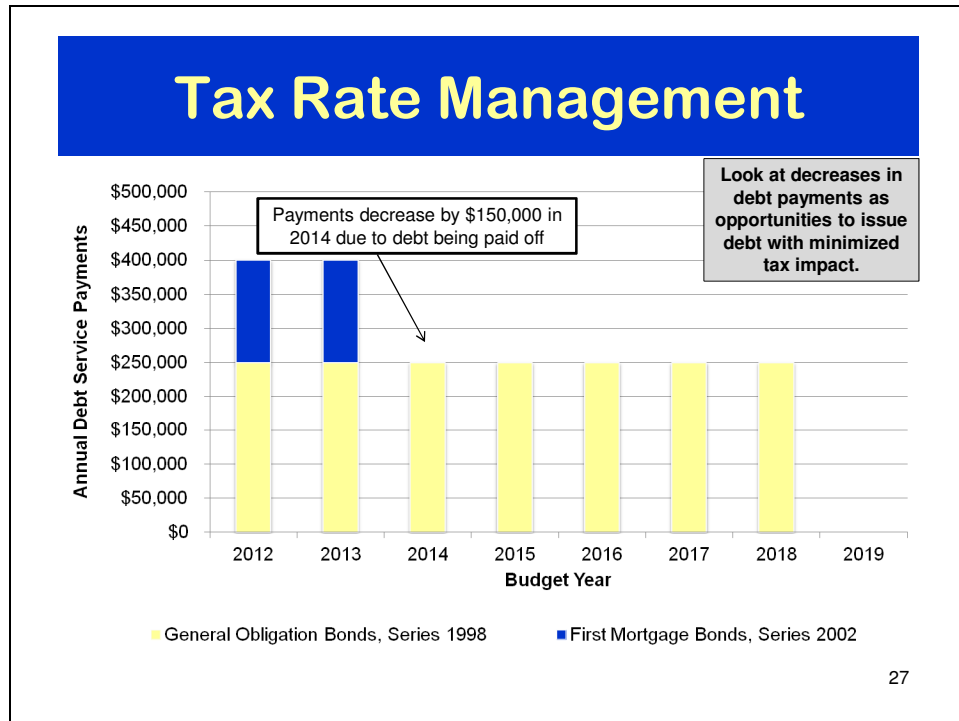
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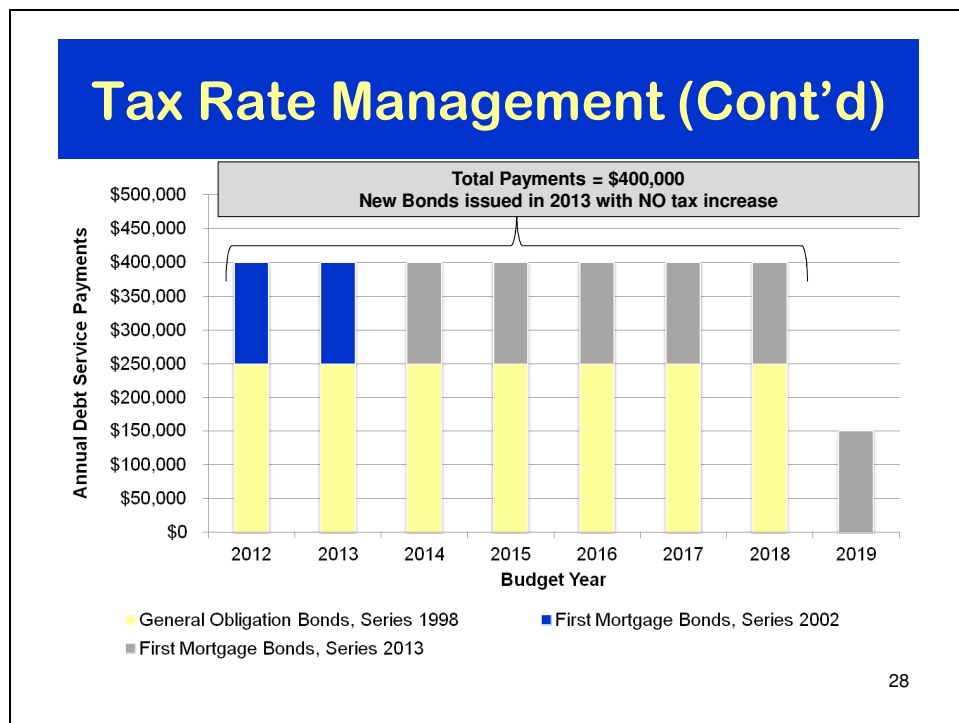
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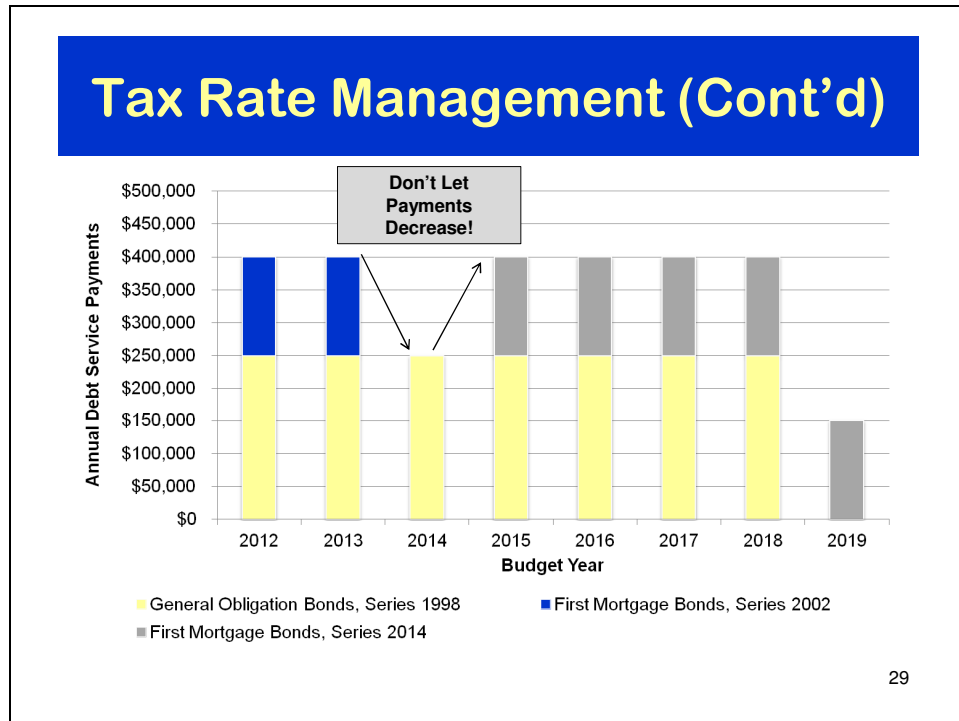
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Circuit Breaker Tax Credits

Property Classification	Gross Assessed Value	Capped Percentage	Maximum Tax Liability
Homestead	\$100,000	1%	\$1,000
Other Residential, Rental, Agricultural Land and Long-Term Care Facilities	\$100,000	2%	\$2,000
Business (Real/Personal)	\$100,000	3%	\$3,000

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How are Tax Credits Funded?

- Credits are funded by a reduction in property tax revenues of all Taxing Units in proportion to their levy.
- Property tax rates may not be increased to offset the shortfall.
- Funds may not be borrowed to offset the shortfall.

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	\$100,000 Home 1% Cap	\$150,000 Home 1% Cap	\$200,000 Home 1% Cap	2% Cap (rental, farm)	3% Cap (business)
True Tax Value Homeowner/Taxpayer	\$100,000	\$150,000	\$200,000	\$150,000	\$150,000
Less Current Homestead Deduction	(\$45,000)	(\$45,000)	(\$45,000)	\$0	\$0
Less Supplemental 35% Homestead Deduction	(\$19,250)	(\$36,750)	(\$54,250)	\$0	\$0
Less Mortgage Deduction	(\$3,000)	(\$3,000)	(\$3,000)	\$0	\$0
Net True Tax Value	\$32,750	\$65,250	\$97,750	\$150,000	\$150,000
Divide by 100 = Net TTV per \$100	\$328	\$653	\$978	\$1,500	\$1,500
Times Estimated Tax Rate from All Taxing Units	\$3.50	\$3.50	\$3.50	\$3.50	\$3.50
Gross Tax Bill	\$1,146	\$2,284	\$3,421	\$5,250	\$5,250
Less Tax Credit	(\$146)	(\$784)	(\$1,421)	(\$2,250)	(\$750)
Max. Tax Bill Taxpayer Pays (TTV x __%)	\$1,000	\$1,500	\$2,000	\$3,000	\$4,500
Loss to Units	\$146	\$784	\$1,421	\$2,250	\$750

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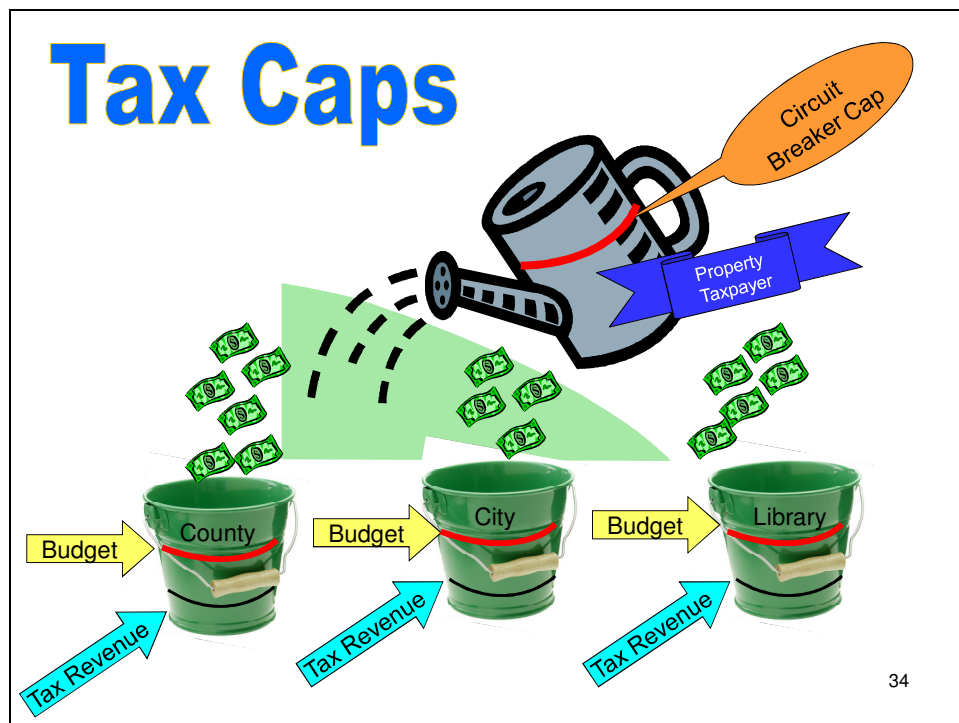
How are tax credits funded?

Taxing Unit	Tax Rate	Levy Reduction
County	\$0.3500	(\$10.00)
Township	0.0350	(1.00)
School	1.7500	(50.00)
Library	0.0525	(1.50)
City	<u>1.3125</u>	<u>(37.50)</u>
Total	<u>\$3.5000</u>	<u>(\$100.00)</u>

Beginning in 2014, Non-Exempt Debt Funds will NOT receive Circuit Breaker Tax Credits.

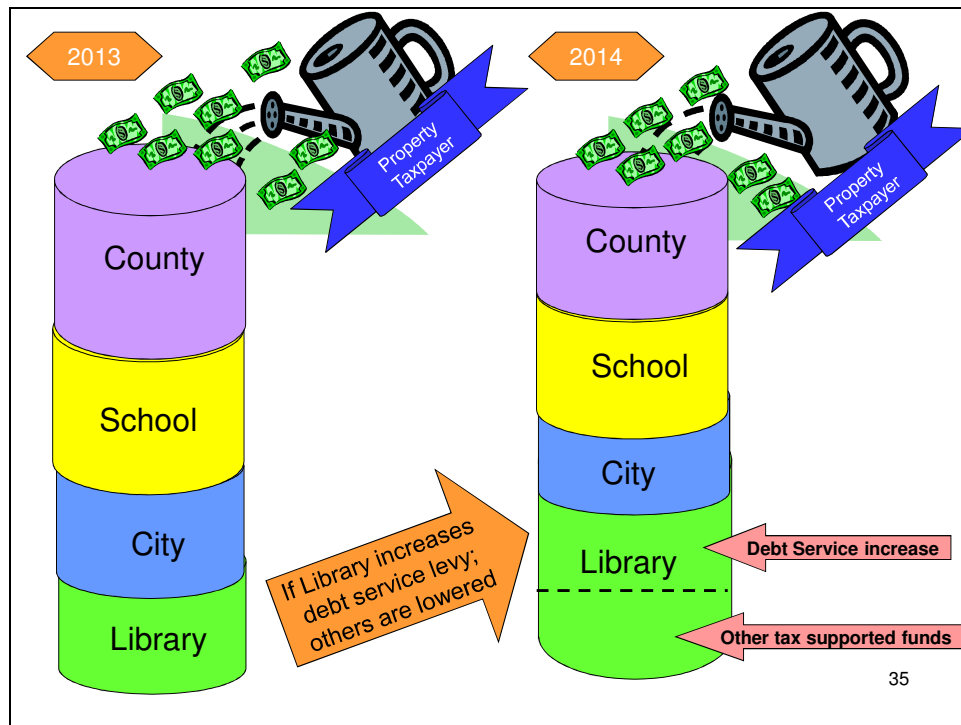
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2013 Bond Workshop at the Indiana State Library on August 14

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Factors Influencing Circuit Breaker Tax Credits

- Assessed Values
 - Actual trending results
 - Significant changes to the tax base
- Levies
 - Changes in growth factor of Controlled Funds
 - Issuance of debt (inside tax cap calculation)
- Credits
 - Income tax collections
 - Changes to local homestead credits
 - Adoption of Property Tax Relief LOIT (Option B)

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There are 3 major drivers influencing circuit breaker tax credits – Assessed Values, Levies and Credits

- Assessed Values
 - Growth or decline to the tax base
- Levies
 - Could also include increases due to building up working balances
- Credits
 - Local HS Credits – CEDIT/COIT HSC
 - Adoption of LOIT B – which can be distributed to homesteads, qualified residential property (including homesteads, rental property and apartments)

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Project Scenarios

- Library A
 - Project Scope: Roofing, carpeting, computers
 - Total Project Cost: \$600,000
 - Existing Debt: \$125,000 annual payments, fully repaid in 2015
 - \$5,000 annual circuit breaker impact (1% of levy)

1. How long should the debt be repaid?
2. When should the debt be issued?
3. How should the debt be structured?

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Project Scenarios (Cont'd)

- Library B
 - Project Scope: New construction
 - Total Project Cost: \$3,000,000
 - Existing Debt: \$500,000 annual payments, fully repaid in 2017
 - \$100,000 annual circuit breaker impact (20% of levy)

1. How long should the debt be repaid?
2. When should the debt be issued?
3. How should the debt be structured?

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Project Scenarios (Cont'd)

- Library C
 - Project Scope: Renovation of existing facilities
 - Total Project Cost: \$1,500,000
 - Existing Debt: No debt payments – fully repaid in 2012 (prior debt payments were \$250,000)
 - \$25,000 annual circuit breaker impact (5% of levy)

1. How long should the debt be repaid?
2. When should the debt be issued?
3. How should the debt be structured?

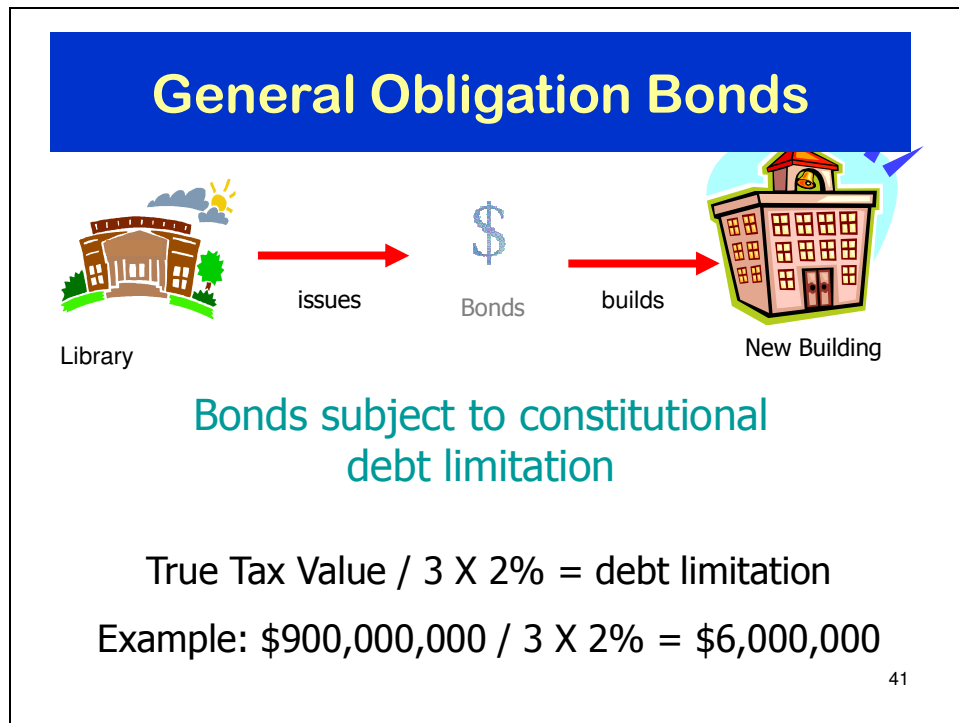
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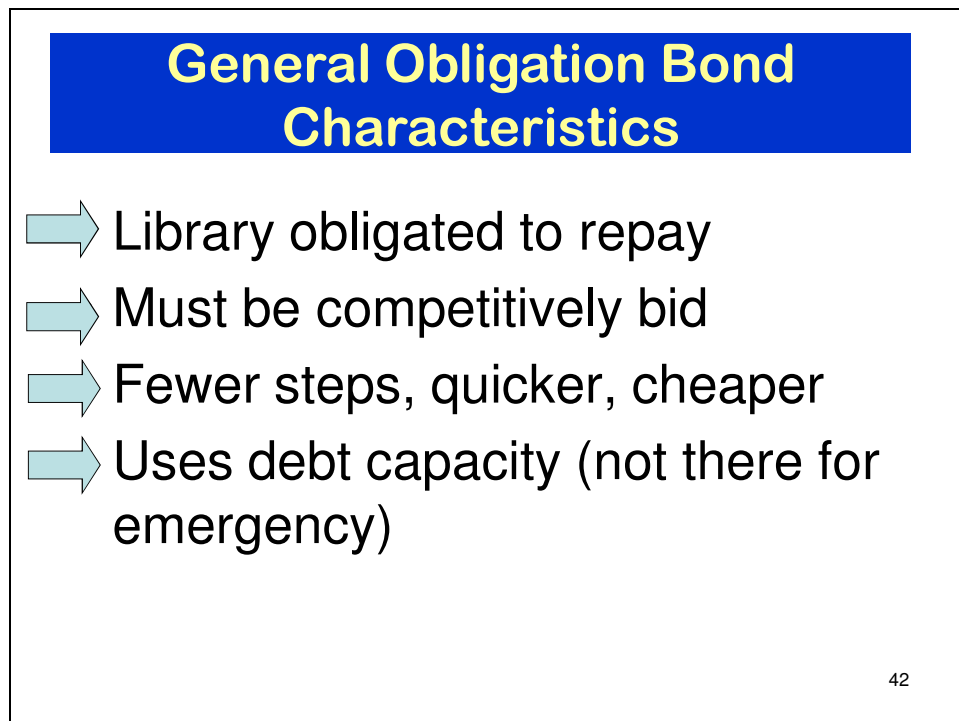
Bond Structures

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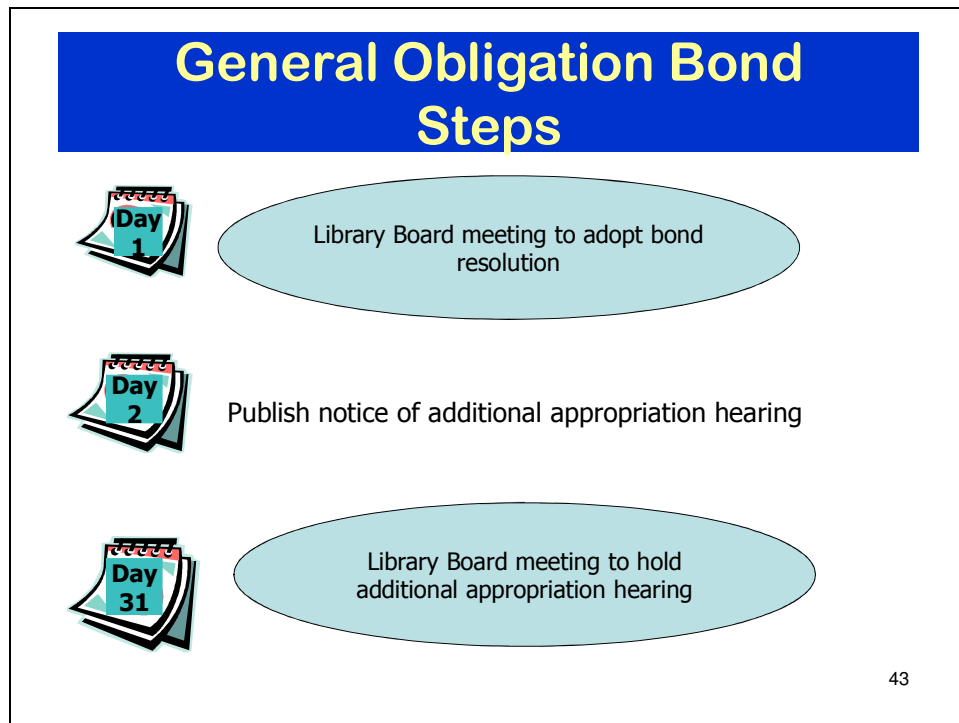
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Elected Board Approval – Budget				
Budget is Greater than Growth Quotient IC 6-1.1-17-20.3	More than 50% parcels outside City/Town limits:	If 50% or more of parcels are within the City/Town limits:		
		A. But Library district coterminous to City/Town	B. Library originally established by City/Town	If not A or B = All Others
Body with <u>Binding</u> Approval	County Council	City/Town Council	City/Town Council	County Council
Budget is Equal or Less than Growth Quotient IC 6-1.1-17.35	All			
Body with <u>Non-binding</u> review	County Council			

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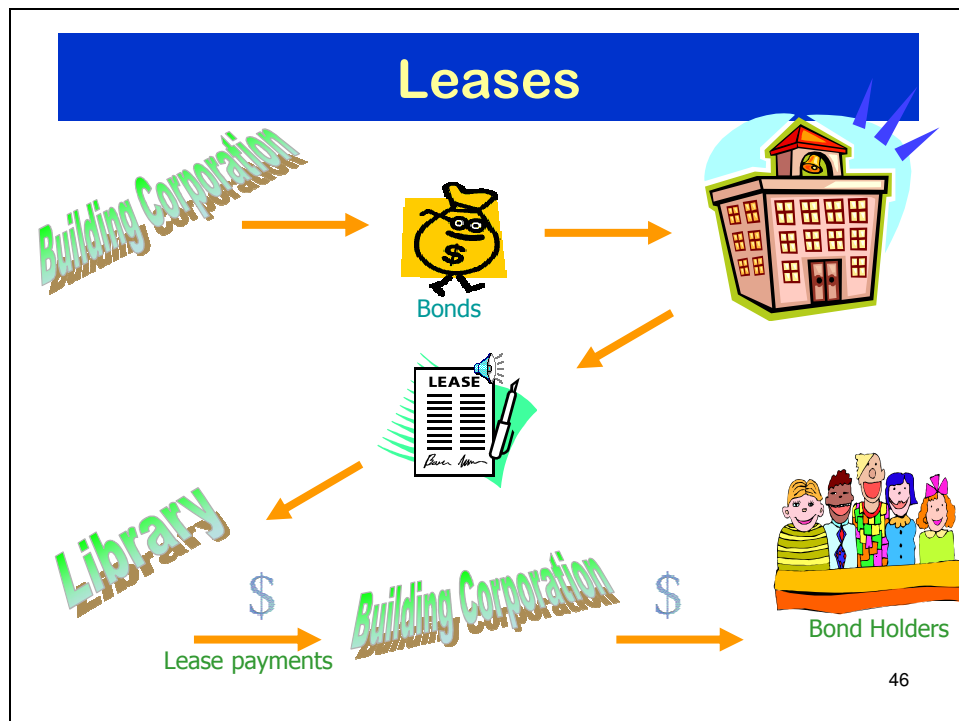
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Elected Board Approval – Bond Issue				
Approval of Bonds IC 6-1.1-17-20.5	More than 50% parcels outside City/Town limits:	If 50% or more of parcels are within the City/Town limits:		
		A. Library district coterminous to City/Town	B. Library originally established by City/Town	If not A or B = All Others
Body to Approve Issuance of Bonds	County Council	City/Town Council	City/Town Council	City/Town Council (<i>statute is actually silent</i>)

Additional Appropriation Approval?

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LEASE

Lease Characteristics

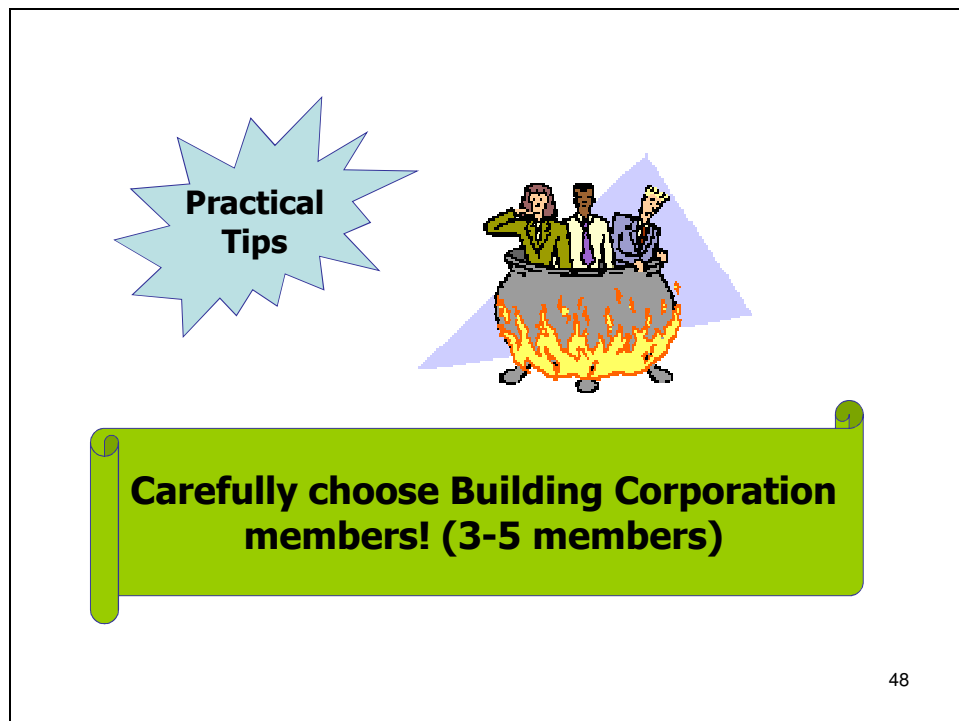
- No debt limit
- May be limited by market
- Takes more time
- More expensive
- May be negotiated or sold competitively
- Mortgage property
- Deal with another entity—Building Corporation

Building Corp. Members


How many & who?

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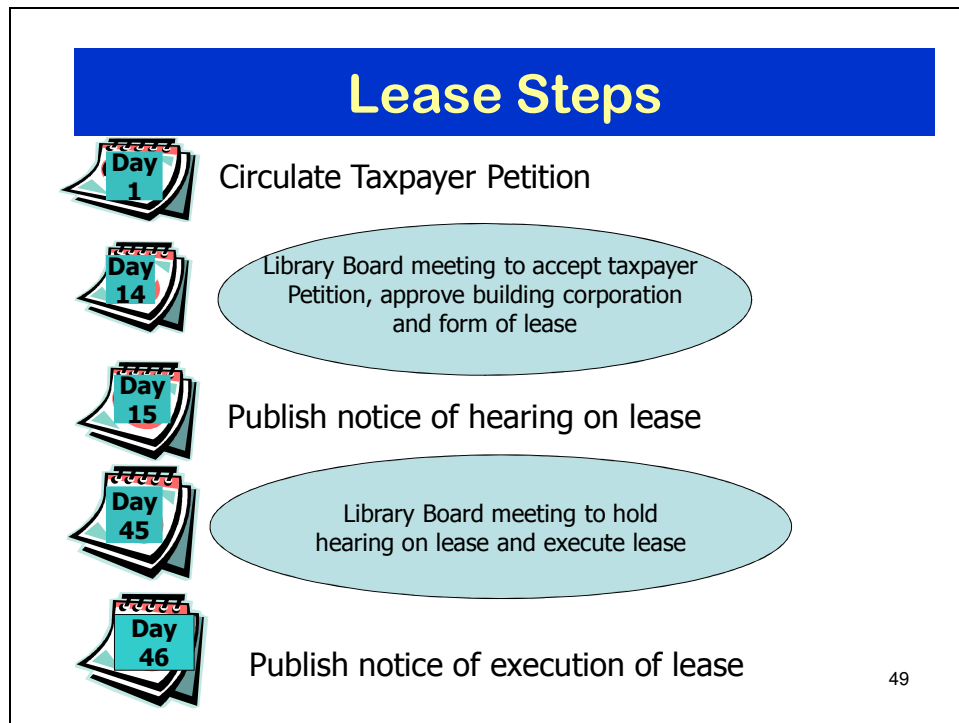
Practical Tips



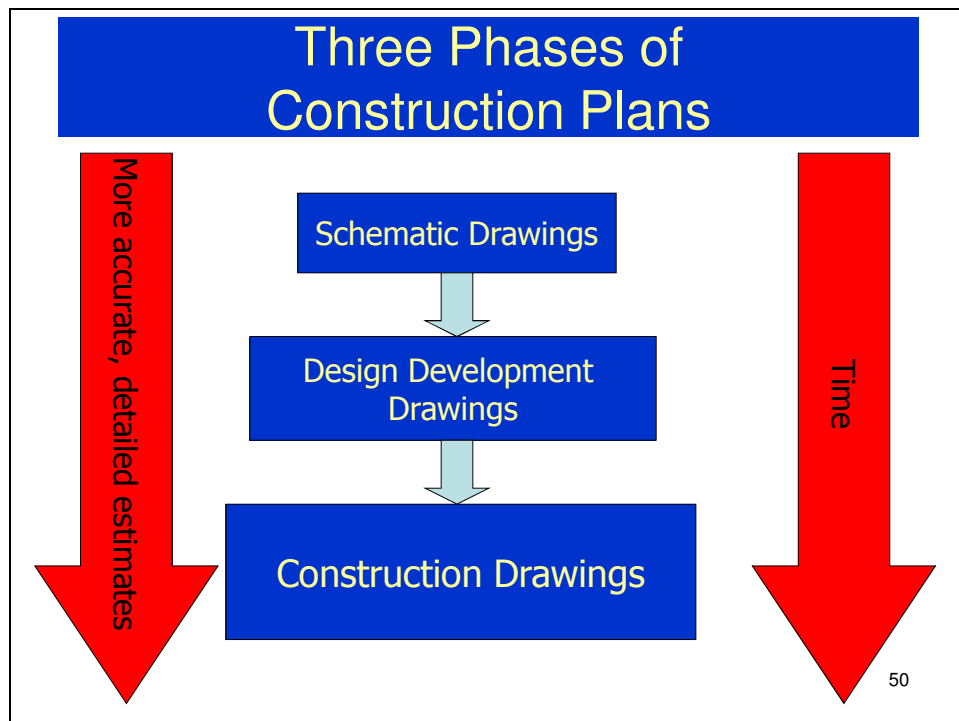
Carefully choose Building Corporation members! (3-5 members)

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A Map of the Stops Along the Way

Design, Bid & Build --

- Schematic Drawings
- Design Development Drawings
- Construction Drawings
- Bid – Award to Lowest Responsible, Responsive Bidder
- Construct


Design/Build --

- Hire Design Criteria Developer
- Appoint Technical Design Committee
- Request for Qualifications (select 3 design/build teams)
- Request for Proposals
- Award to Highest scoring team with lowest cost
- Construct

Energy Savings Contracts--

- Request for Proposals
- Award
- Construct

Three Different Procurement Methods



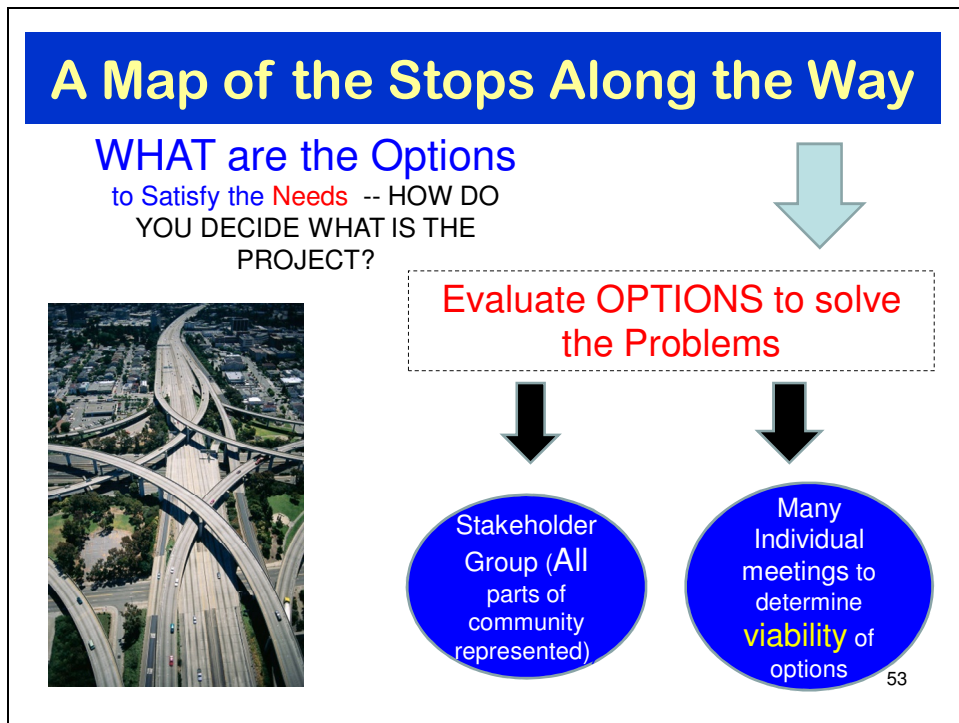
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Legal Processes – Approval of the Bonds

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Politics!

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**Educating the Voters
with honesty
and integrity!**

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Politics!

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Long Term Planning



Ongoing Goodwill Campaign



Libraries & Community are partners – DUTY to Communicate



Develop a core group of volunteers and a communication network



Educate about the money and how you spend it – They need to know!

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Create & Bank Goodwill & Trust

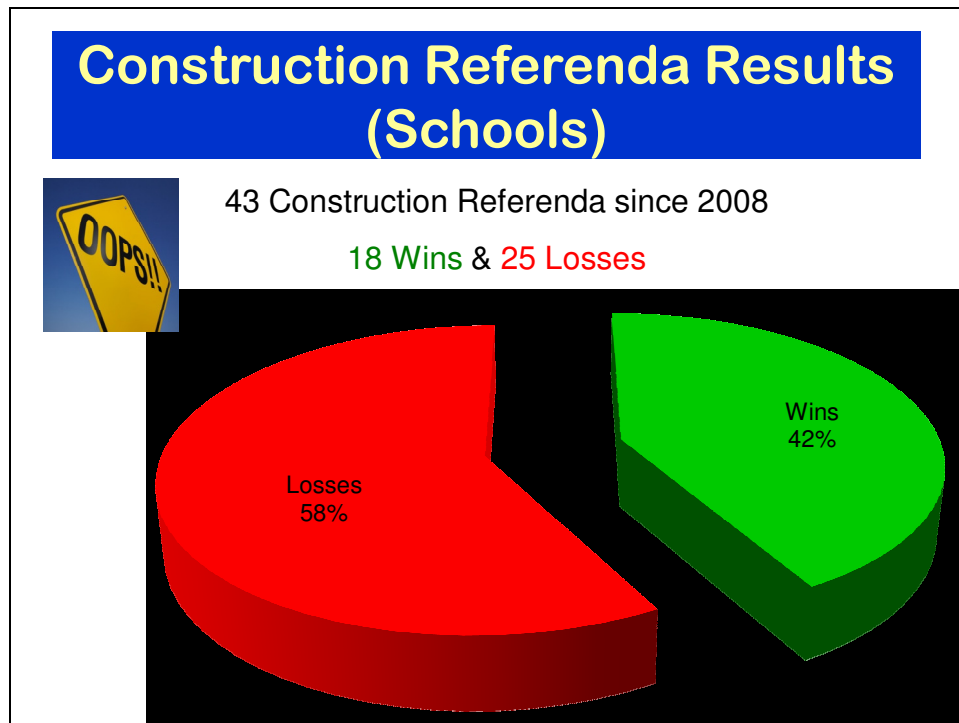


- Get community members into your Library!!
- Create volunteer opportunities for senior citizens (or other groups)
- Provide news releases about “good news” and “events” at the Library
- The better citizens feel about public library, the more likely they will vote yes and trust you with their money
- Build a relationship with the politicians!!!!



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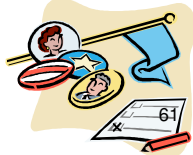


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Upcoming Elections

2014		2015		2016		2017	
May 2014	Nov 2014	May 2015	Nov 2015	May 2016	Nov 2016	May 2017	Nov 2017
Primary	General	Primary	General	Primary	General	None	None
State Auditor & Treasurer	State Auditor & Treasurer	Municipal Elections	Municipal Elections	Governor, US & State	Governor, US & State		
US & State Reps. & Senators	US & State Reps. & Senators	* Check with your Clerk	* Check with your Clerk	Reps. & Senators & County Officials	Reps. & Senators & County Officials		


No Scheduled Elections in 2017



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Board's Role in the Planning Process

- Political eyes and ears of the Library
- Strategically plan & participate in individual meetings with the centers of influence
- Honest disagreement and voicing concerns in a productive, respectful manner
- Identification of campaign organizers
- Identify the right project



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The Project

The Right Project
At the Right Time
With the Right Process
Promoted by the Right People

Not necessarily
the **BEST**
Project but one
that can **WIN!!**

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Petition/Remonstrance Race vs. Referendum

<ul style="list-style-type: none">• Petition - Remonstrance Race:<ul style="list-style-type: none">– Chance of winning– Vote is public– Opposition has to get signatures too– Divisive– Not outside the Tax Caps	<ul style="list-style-type: none">• Referendum:<ul style="list-style-type: none">– Vote is private– Less effort for Opposition– Fewer community scars– Outside the Tax Caps (therefore more equitable)
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Taxpayer/Voter Process Applicable

Applies to Project to be paid from Property Taxes. Exception for revenue bonds (even with property tax back up).


Process 1: Subject* to Referendum

Process 2: Subject* to Petition – Remonstrance Process

Process 3: Subject to no additional opposition process


No Department of Local Government Finance approval required

*Applies only if application petition is filed with County Election Board.



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Pit stop for the Legal Process

Is it a Controlled Project?

- Project funded by bonds or a lease and will cost more than the lesser of:
 - (i) \$2,000,000 or
 - (ii) 1% of total gross assessed valuation (if at least \$1,000,000)

Example: Library's gross assessed value is \$150,000,000 = Trigger for Controlled Project is \$1,500,000

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Legislative Change

- Donation or Gifts don't count toward **TOTAL COST** when determining if it is a **"Controlled Project"** and which legal process applies
- **Example** – Grant of \$500,000 and \$2,000,000 Bond is an non-Controlled Project

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Petition-Remonstrance Process

P/R Race = **PROJECT** > **than \$2 Million but** < **Amount that triggers Referendum**

Same procedure – Race only applies if application petition filed with 100 certified taxpayer or voter signatures

Even if you win the Race – still subject to Circuit Breaker Caps



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Referendum

Can opt in to referendum

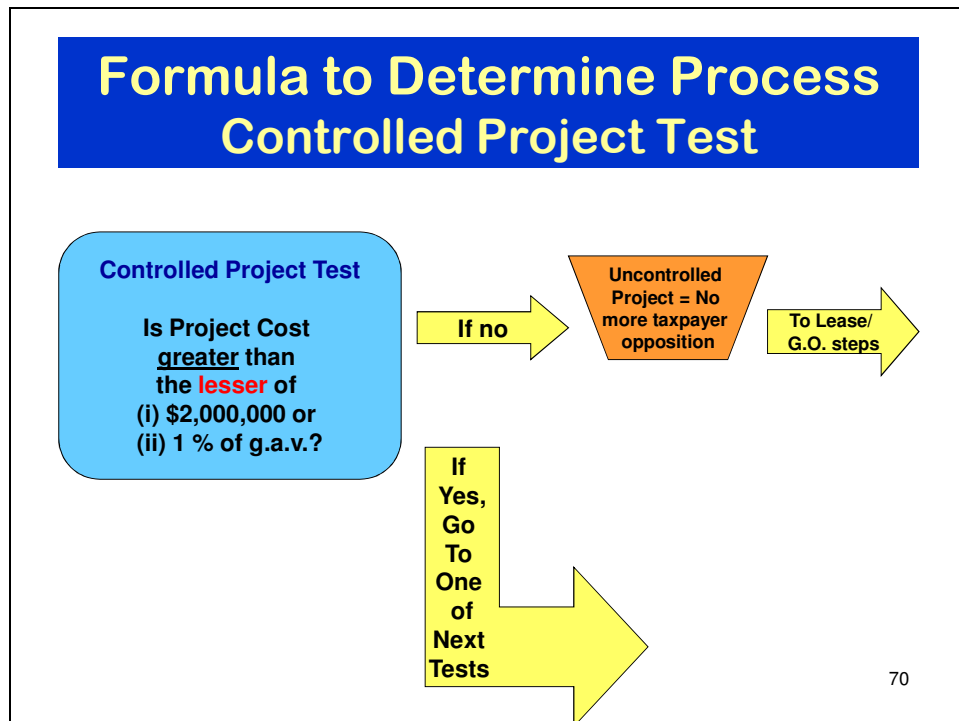
Can't artificially divide project

- Referendum Process applies if
 - Controlled Project defined as . . .

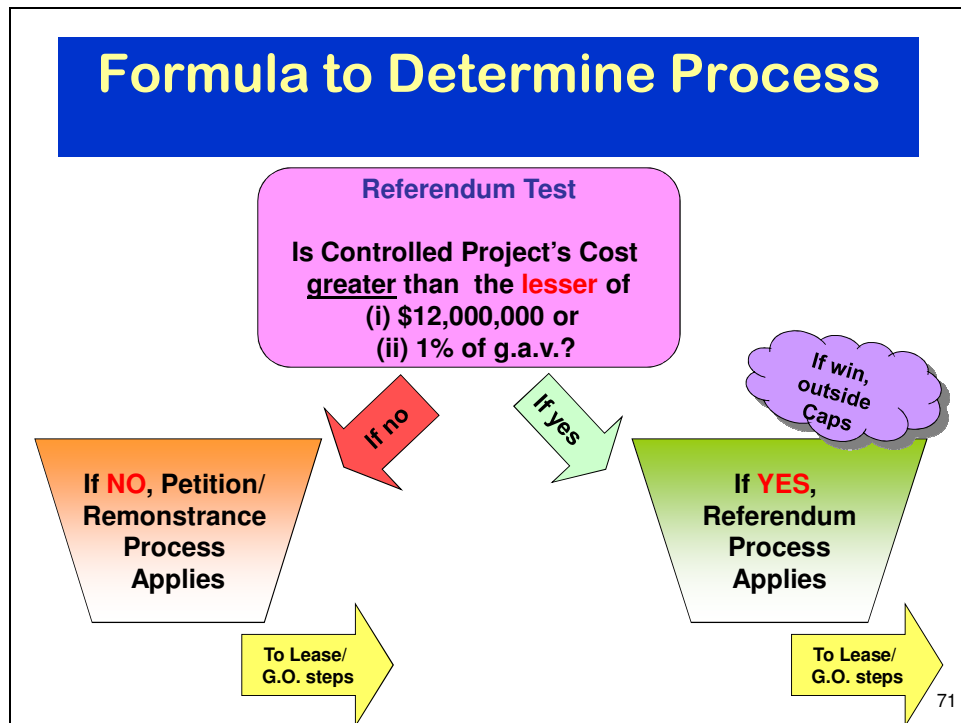
Controlled Project with TOTAL costs > the lesser of \$12,000,000 or 1% of total gross A.V

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Cheat Sheet on Process

Can now opt into Referendum

Type of Building	No Formal Power to Oppose	Petition-Remonstrance Race	Referendum
Governmental (non-academic space) i.e. Library	Not a Controlled Project if \$2,000,000* or less	More than \$2,000,000 but less than or equal to the lesser of 1% of assessed valuation or \$12,000,000	More than the lesser of 1% of assessed valuation or \$12,000,000

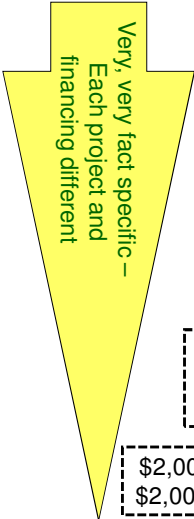
• *If AV is less than \$200,000,000 then use 1% of av as limit

• Limits are expressed as total project costs (hard and soft construction, costs of issuance, capitalized interest and interest earnings).

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Confirmation of Understanding



"A" Library - \$1,500,000 renovation of existing library.
Library has assessed value of \$ 250,000,000 =

"B" Library - \$2,000,000 renovation of existing library.
Library has assessed value of \$300,000,000 =

Library - \$2,000,000 renovation of existing library.
Library has assessed value of \$150,000,000 =

"C" Library - \$5,000,000 construction of new library.
Library has assessed value of \$300,000,000 =

\$2,000,000 project at Franklin Library Branch, contracted separately, funded separately in 2012 and \$2,000,000 project at Whiteland Library Branch in 2013 =

\$2,000,000 project at Franklin Library Branch, contracted separately, and \$2,000,000 project at Whiteland Library Branch in 2013 funded together =

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Options to Discuss

- Multiple projects over time?
- Leases vs. general obligation bonds?
- Referendum vs. Petition-Remonstrance?
- Small projects with no taxpayer opposition?
- Short term plan vs. long term plan? (i.e. what if you lose?)

FACTORS:

Project & Financial need, construction efficiency, estimated cost, logistics & **POLITICS!!**

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VOTE


**THE REFERENDUM
ELECTION**

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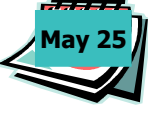
Send question to DLGF in advance?

Referendum Process




May 17

Library Board meeting to authorize Preliminary Determination Hearing



May 25


Public notice of Preliminary Determination Hearing (10 days prior to Hearing)




June 7

Library Board meeting to hold Preliminary Determination Hearing

More tax information at hearing



Also Stop Sign for new rules -- No more promotion -- Just the FACTS



June 15

Publish notice of adoption (commences 30 day application period) & provide a copy to County Clerk & Auditor

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The Public Question

"Shall Johnson County Public Library issue bonds to finance the construction of a new library building in Franklin, Indiana and for the renovation of the existing Franklin and White River buildings (the "Project"), which Project is estimated to cost not more than \$29,955,000 and is estimated to increase the property tax rate for debt service by a maximum of \$0.0426 per \$100 assessed value?"

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The Public Question

"Shall Lebanon Community Schools enter into a lease to finance the renovation of and improvements to Lebanon High School, Lebanon Middle School, Central Elementary School, Harney Elementary School, Hattie B. Stokes Elementary School, Perry-Worth Elementary School, the Service Center, the Transportation Center and the Administration Center (the "Project"), which Project is estimated to cost not more than \$40,000,000 and is estimated to increase the property tax rate for debt service by a maximum of \$0.6624 per \$100 of assessed value?"

Takes care of building needs for 25 years

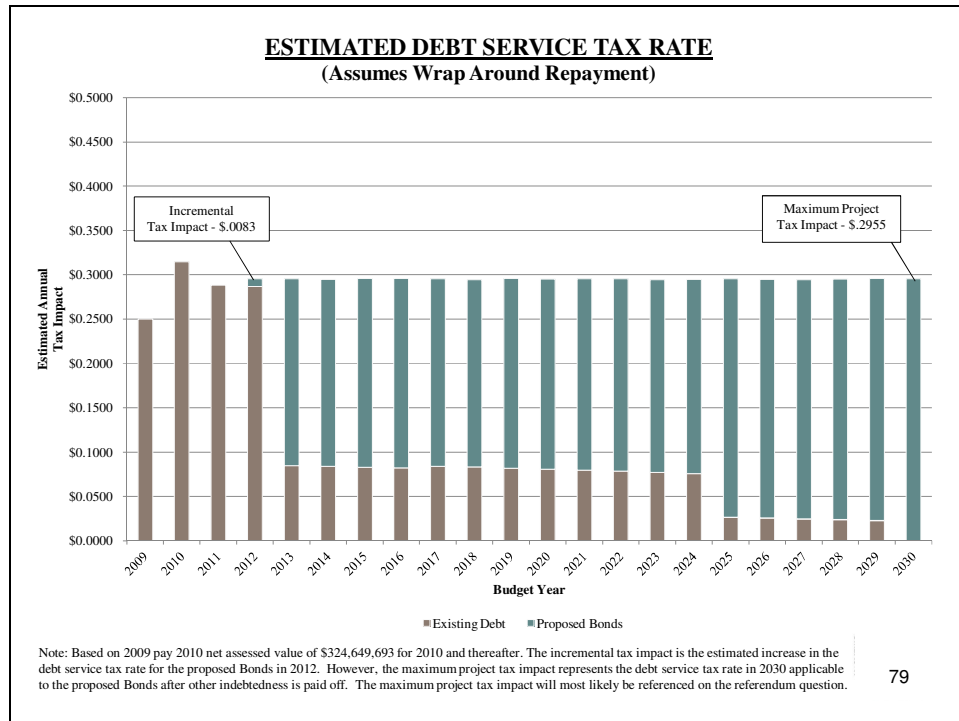
After other debt repaid, 10 cent impact

Please **VOTE YES** to support our kids & community

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2013 Bond Workshop at the Indiana State Library on August 14

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Application Petition Period




June 17

Application petition filed with County Voter Registration Office


- i) Board of Registration;
- ii) Board of Elections & Registration; or
- iii) Office of Circuit Court Clerk





June 26

County Voter Registration Office/Auditor certify **100** taxpayer or voter signatures on petition
(maximum of 35 business days – unless within 35 days of election - *Only needs to certify 125*)



June 27

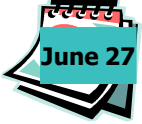
Library delivers notice, certified application petition and request for public question to Voter Registration Board (including requested date of election, if applicable)

If no petition filed, move on to Lease or GQ steps


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DLGF Approval of Question




Clerk, on behalf of Election Board, requests DLGF Approval



DLGF approves or modifies question within 10 days




County Election Board approves public question and sends to Auditor to certify FINAL public question





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The Election



County Auditor certifies public question to County Election Board (must be certified by **August 1** to be on **General Election** ballot)



County Election Board schedules election



Election – If win, proceed to lease or g.o. proceedings; if lose, wait a year on substantially the same project *(If no general, municipal, primary election in the year – Special election allowed but only on typical May & November dates)*

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THE PETITION – REMONSTRANCE RACE

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Petition-Remonstrance Process

	Application petition filed with Auditor
	Auditor certifies 100 taxpayer signatures on petition (<i>maximum of 35 business days</i>)
	Publish notice of Application of Petition/ Remonstrance Process to Project (begins 29 day “gearing up” period) – <i>Controls timing of the Race</i>

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Petition-Remonstrance Process



First Day to pick up petition & remonstrance forms from Auditor – *29th day after publication of Notice*


Last Day to file petition & remonstrance with Auditor – *60th day after publication of Notice*

Auditor certifies taxpayer signatures



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The Rules for Referendum & Petition/ Remonstrance Race

Can't **PROMOTE** using:

- **Employees** on the Clock,
- Library **Facilities** (or systems)

or

- **Library Money**
(plus some more . . .)

However, Director, Business Manager & Library Board Members can **PROMOTE** any time (as long as they don't use Library \$)

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MORE Rules for Referendum & Petition/ Remonstrance Race

Can't **PROMOTE** using:

- Person/Organization that has a contract "**to provide goods and services**" can't spend money to promote
- Attorney, architect, construction manager or financial advisor for services provided may not **spend money** to promote.

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Effective Communication

Slogan and Logo
are large

Message is clear,
simple & concise

Campaign "brand"
used on all
communications

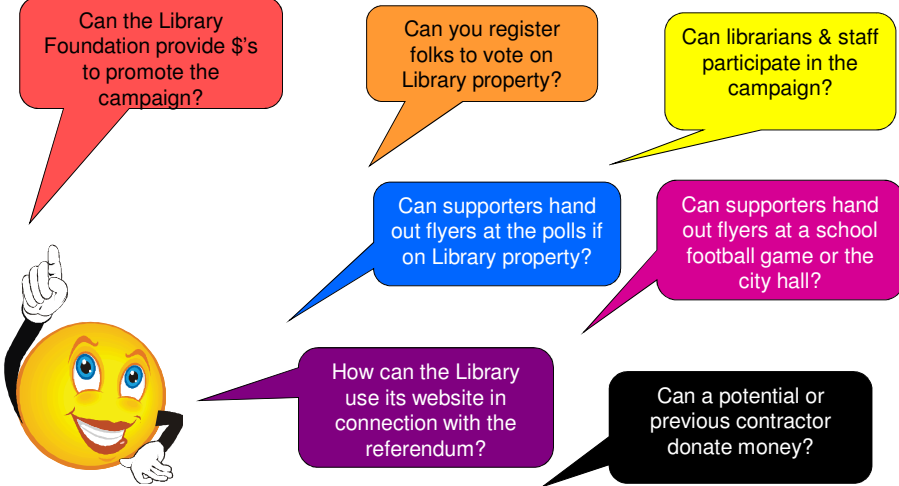
Content is picture
oriented with less
words



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Real Life Examples



- Can the Library Foundation provide \$'s to promote the campaign?
- Can you register folks to vote on Library property?
- Can librarians & staff participate in the campaign?
- Can supporters hand out flyers at the polls if on Library property?
- Can supporters hand out flyers at a school football game or the city hall?
- How can the Library use its website in connection with the referendum?
- Can a potential or previous contractor donate money?

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We won!!!!

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Sale of Bonds and Post-Sale Activities

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Marketing the Bonds

- Prepare Offering Document
- Obtain a bond rating (if applicable)
- Determine method of sale (competitive or negotiated)
- Bond Closing

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Preliminary Official Statement

- Disclosure document which is a marketing tool.
- Provides potential bond purchasers with information on project, bond structure, security, legal opinion, etc.
- Provides rating agencies with information on the Library's background, history, finances, etc.
- Require for bond issues of \$1 million or greater.

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Competitive Bond Sale

- Competitive Bond sale may be required by State Statute – determined by Bond Counsel
- Typically sold upon 24 hours' notice
- Financial advisor coordinates sale
- Bonds awarded to underwriter with lowest net interest cost
 - Based upon interest rates and Underwriter's discount and/or premium
- Typically used for property tax supported bond issues

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Competitive Bond Sale (Cont'd)

- Advantages
 - Assurance that bonds are sold at the lowest interest rates
 - Provides incentive for each underwriter to submit most aggressive bid
 - Open, fair process
- Disadvantages
 - May have less flexibility
 - “Risk premium” built into bonds
 - Less control over allocation of bonds

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Negotiated Bond Sale

- Negotiate interest rates and fees with one underwriter
- May send Request for Proposal to several underwriter's before selecting one
- More often used for revenue supported bonds without a property tax backup (“story” bonds)
- Advantages
 - Greater incentive to engage in pre-sale marketing activities
 - More flexibility concerning timing and bond structure
 - Can ensure that bonds are available to certain investors
- Disadvantages
 - How is basis of underwriter selection determined
 - Are you getting the best deal?

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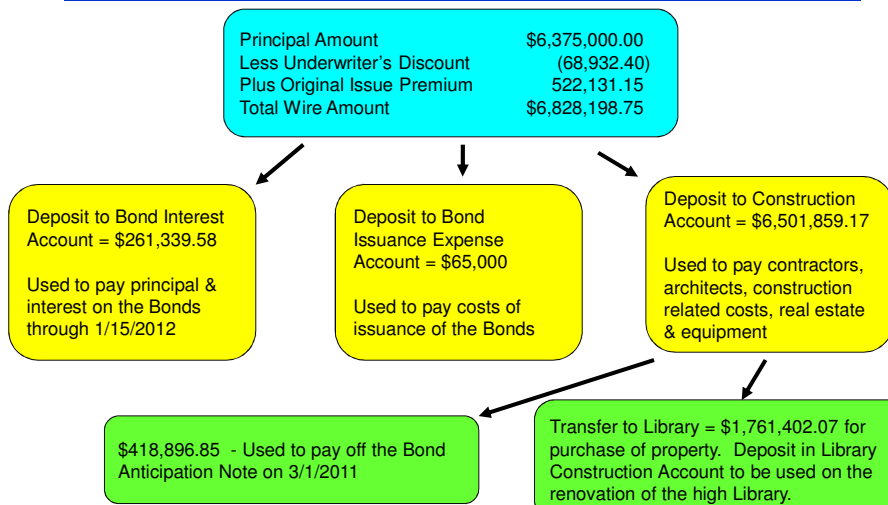
Final Official Statement

- Finalize after bond sale
- Contains final interest rates and reoffering prices
- Includes bond rating information if applicable
- Distribute to winning underwriter within 7 days of sale

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Closing



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Arbitrage/Rebate




Arbitrage = Refers to the difference between the yield on the Bonds and the interest earned by investing the proceeds

Exceptions to the Rebate Requirement:

- **Small Issuer Exception** -- \$5,000,000 or less in tax exempt borrowing annually
- **Two Year Spend Down Exception** –
 - 10% - 6 months
 - 45% - 1 year
 - 75% - 18 months
 - 100% - 2 years

If no exception met, rebate (if any) due 5 years after the closing



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As you look at your Dashboard you must
always be looking **AHEAD** . . .
Where are you going? . . .
LEADERSHIP



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2013 Bond Workshop at the Indiana State Library on August 14

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Thank you!



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